

Earned Income Tax Credit (EITC) - Important Changes for Tax Year 2002

Important Note: There are no changes to the EITC tax law for tax year 2001.

Changes for tax year 2002:

New definition of earned income: For tax years beginning after 2001, earned income will no longer include nontaxable employee compensation.

Elimination of modified adjusted gross income (AGI): For tax years beginning after 2001, taxpayers will no longer need to figure modified AGI. The EITC will be figured using AGI, *not* modified AGI.

New rules for taxpayers claiming the same qualifying child (tie-breaker rule): For tax years beginning after 2001, the tie-breaker rule will apply when more than one taxpayer claims the EITC if using the same qualifying child. New rules will be used to determine which person can claim the EITC using that child.

New definition of qualifying child: For tax years beginning after 2001, the definition of a qualifying child will change. Specifically, the child must live with the taxpayer for more than half of the year.

Reduction of EITC by Alternative Minimum Tax (AMT) eliminated: For tax years beginning after 2001, the taxpayer's EITC will no longer be reduced by the amount of any AMT shown on the return.

The changes above can be found in Publication 553, *Highlights of 2001 Tax Changes*.

In addition, for tax years beginning after 2001, the income amounts at which the phase-out begins and ends will increase by \$1,000 for joint filers.